

**REPORT OF THE AUDIT OF THE
FORMER TODD COUNTY
SHERIFF'S SETTLEMENT – 2014 TAXES**

**For The Period
April 16, 2014 Through January 04, 2015**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

**AUDIT OF THE
FORMER TODD COUNTY
SHERIFF'S SETTLEMENT – 2014 TAXES**

**For The Period
April 16, 2015 Through January 04, 2015**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2014 Taxes for the former Todd County Sheriff for the period April 16, 2015 through January 04, 2015. Based upon the audit work performed, we have issued a qualified opinion on the financial statement.

Financial Condition:

The former Sheriff collected 2014 taxes of \$3,390,374 for the districts, retaining commissions of \$122,937 to operate the Sheriff's office. The Sheriff distributed 2014 taxes of \$3,268,237 to the districts. Taxes of \$91 are due to the districts from the Sheriff and refunds of \$891 are due to the Sheriff from the taxing districts.

Report Comments:

2014-001 The Former Sheriff's Office Had A Lack Of Segregation Of Duties
2014-002 The Former Sheriff Did Not Account For \$120,189 In Uncollected Franchise Taxes

Deposits:

The former Sheriff's deposits as of November 6, 2014 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$93,787

The former Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Daryl Greenfield, Todd County Judge/Executive
Honorable Tracy White, Todd County Sheriff
Honorable Arthur Johnson, Former Todd County Sheriff
Members of the Todd County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the former Todd County Sheriff's Settlement - 2014 Taxes for the period April 16, 2014 through January 04, 2015 - Regulatory Basis, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Audit Guide for Sheriff's Tax Settlements* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.



To the People of Kentucky
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Auditor's Responsibility (Continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the County Sheriff on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the former County Sheriff, as of January 04, 2015, or changes in financial position or cash flows thereof for the year then ended.

Basis for Qualified Opinion on Regulatory Basis of Accounting

The former Sheriff did not provide a representation letter as required by auditing standards generally accepted in the United States of America. Furthermore, he did not accept audit adjustments to correct misstatements that were identified and considered material, but not pervasive to the financial statement.

Opinion on Regulatory Basis of Accounting

In our opinion, except for the effects of matters described above in the Basis for Qualified Opinion on Regulatory Basis of Accounting paragraph, the financial statement referred to above presents fairly, in all material respects, the taxes charged, credited, and paid for the period April 16, 2014 through January 04, 2015 of the former Todd County Sheriff, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

To the People of Kentucky
Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Daryl Greenfield, Todd County Judge/Executive
Honorable Tracy White, Todd County Sheriff
Honorable Arthur Johnson, Former Todd County Sheriff
Members of the Todd County Fiscal Court

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2016 on our consideration of the former Todd County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the former Todd County Sheriff's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2014-001 The Former Sheriff's Office Had A Lack Of Segregation Of Duties
- 2014-002 The Former Sheriff Did Not Account For \$120,189 In Uncollected Franchise Taxes

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Mike Harmon', with a long horizontal flourish extending to the right.

Mike Harmon
Auditor of Public Accounts

March 21, 2016

TODD COUNTY
ARTHUR JOHNSON, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2014 TAXES

For The Period April 16, 2014 Through January 04, 2015

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 429,591	\$ 639,191	\$ 1,679,310	\$ 529,395
Tangible Personal Property	33,898	59,003	132,509	111,564
Fire Protection	1,403			
Increases Through Exonerations				1
Franchise Taxes	44,848	73,137	175,045	
Bank Franchises	53,881			
Penalties	1	2	4	1
Adjusted to Sheriff's Receipt	(6)	(4,100)	(18)	(18)
Gross Chargeable to Sheriff	<u>563,616</u>	<u>767,233</u>	<u>1,986,850</u>	<u>640,943</u>
<u>Credits</u>				
Exonerations	680	987	2,659	1,149
Discounts	7,855	10,121	26,443	9,288
Transferred to Incoming Sheriff				
Real Estate	45,869	67,569	178,933	56,408
Tangible Personal Property	3,673	6,384	14,357	15,705
Franchise Taxes	<u>18,471</u>	<u>29,581</u>	<u>72,136</u>	
Total Credits	<u>76,548</u>	<u>114,642</u>	<u>294,528</u>	<u>82,550</u>
Taxes Collected	487,068	652,591	1,692,322	558,393
Less: Commissions *	<u>20,700</u>	<u>27,735</u>	<u>50,770</u>	<u>23,732</u>
Taxes Due	466,368	624,856	1,641,552	534,661
Taxes Paid	<u>466,807</u>	<u>624,894</u>	<u>1,641,859</u>	<u>534,677</u>
Due Districts or (Refund(s) Due Sheriff) as of Completion of Audit	<u>\$ (439)</u>	<u>\$ (38)</u>	<u>\$ (307)</u>	<u>\$ (16)</u>

**

* and ** See next page.

The accompanying notes are an integral part of this financial statement.

TODD COUNTY
 ARTHUR JOHNSON, FORMER SHERIFF
 SHERIFF'S SETTLEMENT - 2014 TAXES
 For The Period April 16, 2014 Through January 04, 2015
 (Continued)

* Commissions:

4.25% on \$ 1,698,052

3% on \$ 1,692,322

** Special Taxing Districts:

Library District	\$	(57)
Health District		(33)
Extension District		(38)
Soil Conservation District		(1)
Pond River		91
		<hr/>

Due District(s) or		
(Refund(s) Due Sheriff)	\$	<u>(38)</u>

TODD COUNTY
NOTES TO FINANCIAL STATEMENT

January 04, 2015

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Todd County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the former Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

TODD COUNTY
 NOTES TO FINANCIAL STATEMENT
 January 04, 2015
 (Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of January 04, 2015, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of November 6, 2014, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$93,787

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2014. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2015. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 18, 2014 through January 4, 2015.

B. Franchise Taxes

The real and personal franchise tax assessments were levied as of January 1, 2014. Franchise taxes were billed to finance governmental services for the fiscal year ended June 30, 2015. Liens are effective when the tax bills become delinquent. The collection period for these assessments was April 16, 2014 through January 4, 2015.

Note 4. Interest Income

The former Todd County Sheriff earned \$556 as interest income on 2014 taxes. The former Sheriff was in substantial compliance with his statutory responsibility regarding interest.

Note 5. Unrefundable Duplicate Payments And Unexplained Receipts

The former Sheriff deposited unrefundable duplicate payments and unexplained receipts in an interest-bearing account. The former Sheriff's escrowed amounts were as follows:

2011	\$23
2012	\$672

KRS 393.090 states that after three years, if the funds have not been claimed, they are presumed abandoned. Abandoned funds are required to be sent to the Kentucky State Treasurer pursuant to KRS 393.110.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Daryl Greenfield, Todd County Judge/Executive
Honorable Tracy White, Todd County Sheriff
Honorable Arthur Johnson, Former Todd County Sheriff
Members of the Todd County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards*

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the former Todd County Sheriff's Settlement - 2014 Taxes for the period April 16, 2014 through January 04, 2015 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated March 21, 2016. The former Todd County Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the former Todd County Sheriff's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former Todd County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Todd County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2014-001 and 2014-002 to be material weaknesses.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards*
(Continued)

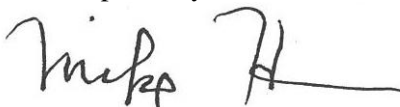
Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Todd County Sheriff's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike H", with a stylized flourish at the end.

Mike Harmon
Auditor of Public Accounts

March 21, 2016

COMMENTS AND RECOMMENDATIONS

TODD COUNTY
ARTHUR JOHNSON, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period April 16, 2014 Through January 04, 2015

INTERNAL CONTROL - MATERIAL WEAKNESSES:

2014-001 The Former Sheriff's Office Had A Lack Of Segregation Of Duties

The former Sheriff's bookkeeper collects tax monies, posts to the receipts ledger, prepares and makes deposits, writes checks to taxing districts, signs checks, posts to the disbursements ledger, prepares monthly tax reports, and reconciles checking accounts. By not having a segregation of duties, one employee has access to all transactions with only minor oversight. This lack of oversight increases the risk of fraud or theft. Good internal controls over the financial reporting duties help ensure that reports are accurate and reduce the risk of fraud or theft. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. To adequately protect against misappropriation of assets and inaccurate financial reporting, the former Sheriff should have separated the duties involved in receiving cash, preparing bank deposits, posting cash receipts to the ledger, preparing the monthly bank reconciliation, comparing the weekly, monthly, and quarterly reports to the receipts and disbursements ledgers, writing checks, posting to the disbursements ledger as well as preparing the financial report.

Former Sheriff Arthur Johnson's Response: The former Sheriff did not respond.

2014-002 The Former Sheriff Did Not Account For \$120,189 In Uncollected Franchise Taxes

The former Sheriff did not require the bookkeeper to account for \$120,189 in uncollected franchise taxes. By not accounting for these franchise taxes, those taxes could potentially not get collected, which causes a drop in revenue to the taxing districts that rely on this revenue to operate. Good internal controls over the financial reporting duties help ensure that all franchise taxes are accurately accounted for and reported. The former Sheriff should have accurately accounted for and reported uncollected franchise taxes.

We will refer this to the Todd County Attorney.

Former Sheriff Arthur Johnson's Response: The former Sheriff did not respond.

